Why BCE Inc. Is the Best Telco Stock for Your Portfolio

Description

In recent months some analysts have taken a negative view of Canada's largest telco **BCE Inc.** (TSX:BCE)(NYSE:BCE). They are claiming that it isn't a good investment because it appears expensive and has few growth prospects.

However, I beg to differ and believe that its recent first-quarter results highlight why it should be a core holding in every long-term investors' portfolio.

Now what?

Despite the naysayers, BCE beat the consensus earnings estimate by 6% for the first quarter 2015 with adjusted earnings per share of $0.84, up by 3.6% year over year. This growth can be attributed to the solid results from its wireless division, driven by higher rates of customer retention, increased data usage, and greater sales of premium smartphones. These results have come on the back of BCE implementing a range of initiatives to improve its wireless network by expanding its reach, reliability and speed, along with improved service offerings.

A key measure of a telco's efficiency is its average revenue per user, or ARPU, and for the first quarter. BCE's ARPU grew by an impressive 5% year over year to $60.80. This is one of the best ARPUs in the industry and is just over 3% higher than **Rogers Communications Inc.'s** ARPU of $58.75 for the same period.

More importantly, BCE's initiatives that are focused on improving customer service are paying dividends for the company, with churn rates across is its residential and wireless services dropping during the quarter.

On face value, it is easy to reconcile the argument that BCE has no meaningful opportunities for growth in a saturated domestic telecommunications market, but when we dig a little deeper it is easy to see just how wrong that view is.

You see, the telecommunications industry is rapidly evolving with technological change and innovation opening up considerable growth opportunities. While demand for wire line services may be dying and growth in demand for traditional wireless voice services diminishing, the demand for high speed data services is exploding as the information age progresses. This is particularly the case with ecommerce now being a major driver of economic growth as it overtakes traditional “brick and mortar” businesses in many industries.

Furthermore, businesses across a range of industries are now more dependent than ever on high speed communications and data services as a means of driving activity.

For these reasons I believe that there are indeed a range of meaningful growth opportunities available to BCE, particularly with it planning to invest $20 billion between now and 2020 in order to expand and improve its network.

Meanwhile, let’s not forget that BCE, by virtue of the sheer size of its network and dominant market share, along with the heavily regulated nature of the telecommunications industry, possesses a wide economic moat. This protects its competitive advantage, therefore enhancing its ability to grow earnings and increase its market share.

So what?

BCE may have a high PE ratio that makes it appear expensive, but this is because the market believes in its growth prospects and ability to deliver. For these reasons, along with its steadily growing dividend and juicy 5% yield, BCE should be a core holding in every portfolio.

CATEGORY

1. Dividend Stocks
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1. Editor's Choice

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mattdsmith